

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Walesh

**SUBJECT: SILICON VALLEY STRONG
SMALL BUSINESS GRANTS**

DATE: July 7, 2020

Approved



Date

7/8/2020

INFORMATION

To support regional coronavirus relief efforts, the Silicon Valley Strong Fund at the Silicon Valley Community Foundation received \$1.5 million from two generous corporate donors to be used for small business relief in the City of San José. The Silicon Valley Community Foundation partnered with Opportunity Fund, a nonprofit community development finance institution that since 1994 has provided microfinancing to low- and moderate-income entrepreneurs, focusing on serving business owners who are women, immigrants, and people of color. Opportunity Fund staff worked with the Local Assistance team in the City's Emergency Operations Center to center racial equity and community needs in the grant criteria and outreach efforts.

The \$1.5 million in funding provided for grants of \$10,000 each to 142 San José businesses. The remaining \$75,000 in funding went to Opportunity Fund to process the grant applications, disburse the funding, and administer the program.

This memorandum provides an update on outcomes of the grant program.

BACKGROUND

San José is home to 55,000 small businesses, more than half of which are immigrant-owned and more than 60% are owned by business owners of color. In addition, there are more than 30,000 sole proprietorships or single-person businesses. These businesses represent more than 97% of all active businesses and generate nearly 43% of all employment in San José. Just as critically, these businesses often represent important cultural and neighborhood anchors in our underserved communities.

ANALYSIS

The economic impact of the COVID-19 pandemic has been particularly devastating for San Jose small businesses. The County's Public Health Officer's order requiring County residents to shelter in place due to the COVID-19 pandemic has triggered a rapid closing and a dramatic decline in consumer spending. This has led to widespread economic injury for small businesses, particularly in the restaurant, entertainment, and nonfood retail sectors. This, in turn, led to widespread layoffs in March and April¹.

Unlike many larger businesses, most sole proprietors and small businesses have less than two months' worth in cash reserves and do not have ready access to working capital lines of credit. In addition, federal relief programs were difficult for small businesses to access and the funds ran out quickly.

The combination of the sudden onset of COVID-19 and its immediate impact on business liquidity has put many San José small and micro-businesses at risk of failure. When a small business fails, the business owner, their family, customers and suppliers, and the whole neighborhood suffer as well.

For these reasons, the Silicon Valley Strong grants, while limited in number, provided a critical lifeline to the recipient businesses.

Grant Criteria

Given the limited number of grants available, grant criteria were targeted to serve micro-businesses that were least likely to access capital and federal relief funds.

Businesses had to meet the following requirements to be eligible to apply:

- The business had to be located within the City of San José.
- The business owner had to live in Santa Clara County.
- Business owner had to have a low or moderate-income below 80% of the Area Median Income.
- The business had to be a micro-enterprise with five employees (full-time equivalent positions) or less.
- The business must have existed prior to January 31, 2020.

¹ The San Jose-Sunnyvale-Santa Clara MSA added 12,500 jobs in May after losing nearly 127,000 jobs in April. May's initial unemployment rate improved slightly to 11.2% from April's 12%. In comparison, unemployment in May 2019 stood at 2.2%. Construction led the April-May rebound with 8,400 jobs added. Leisure and hospitality gained 6,700 jobs, mostly in restaurants (5,600). Several major industries continued to shed employment: government (down 1,900 jobs), private educational and health services (down 1,100 jobs), and information (down 1,000 jobs). Santa Clara County unemployment in May was 11.0%, down from 11.7% in April. San Benito County's May rate was 15.5%. California unemployment stood at 15.9% (unadjusted), the nation at 13%.

- The business had to have experienced approximately 25% loss of income due to COVID-19.

In addition, based on Council discussion when the City's two-week paid sick leave ordinance was enacted, priority was given to businesses that were "essential businesses" as defined by Santa Clara County public health order and had complied with and whose liquidity was impacted by the two-week paid sick leave requirements.

Finally, to ensure that businesses were local in nature, businesses that were franchises or chains were ineligible for the grant. Furthermore, businesses restricted to patrons above the age of 18 were not eligible.

Application Process

The online application process opened at 2 p.m. on May 11, 2020 and closed at 11:59 p.m. on May 17, 2020. Applications were evaluated in order received and funds were granted on a first-come, first-served basis.

Applications were available in three languages: English, Spanish, and Vietnamese. To make the process more user-friendly, potential applicants answered a simple screening tool with six yes-or-no questions. If they met the criteria, applicants then were able to access the full application. If they did not, they reached a page with information about how to connect to other resources for small businesses.

This process was designed to ensure that ineligible applicants didn't waste precious time filling out a full application when they didn't meet the basic criteria.

Targeted Outreach

Using lessons learned from other COVID-19 relief grant programs around the state and nation, the Small Business Assistance Unit within the City's Emergency Operations Center developed a targeted outreach campaign with an equity focus.

The team knew that demand for the Silicon Valley Strong Small Business Grants was likely to be very high and the total number of awards limited, so direct outreach focused on the City's three neediest zip codes—95116, 95122, and 95127, which also have experienced the County's highest rates of COVID-19 infections—as well as the two Downtown zip codes (95112 and 95113), where event and convention cancellations have impacted small businesses. These five zip codes not only include San José's highest need neighborhoods, they are home to numerous small business owners of color, immigrant-owned businesses, women-owned businesses, and micro-businesses impacted by the COVID-19 pandemic. While grants were not restricted to these targeted zip codes, the one-on-one direct outreach was targeted given the needs in these neighborhoods.

Outreach activities included:

- Direct emails in English, Spanish, and Vietnamese to all of the businesses that had provided them to the City (about 40% on average) in the targeted zip codes that would be likely to meet the eligibility criteria such as employee count.
- Tri-lingual e-mail and informational materials provided to neighborhood business districts and ethnic chambers of commerce, as well as to nonprofit community-based organizations serving the targeted zip codes and communities.
- Informational material on the City website, SJeconomy.com, and Silicon Valley Strong website.
- Information shared with any San José business that had inquired about Silicon Valley Strong funding, either via the City or Opportunity Fund.
- Outreach to San José-based Opportunity Fund clients and those who had inquired about coronavirus relief funds.
- Information included in the Emergency Operations Center's evening Flash Report.
- Information provided to the Mayor and City Council to share on social media and in newsletters and with constituents.
- Update provided by the City Manager during the COVID-19 response report at the May 12, 2020 Council meeting.

Results

In total, 1,907 business owners submitted pre-application screening questionnaires. Of those, 1,167 were determined to be eligible and submitted full applications, while 740 business owners were determined to be ineligible and were directed to other financial and technical assistance resources. In total, 142 businesses received grants of \$10,000. Opportunity Fund processed the grants in order received until funds were disbursed using the criteria and priorities discussed above.

Data on both applicants to the Silicon Valley Strong grant program and successful grantees shows that the targeted outreach paid off.

- With respect to geography, two-thirds of the successful grantee business are located in the five targeted zip codes: 42% in the 95122, 95116, or 95127 zip codes and 25% in 95112 and 95113 Downtown. Additionally, 28% of the business owners live in the five targeted zip codes.
- With respect to language, 22% of the overall applications were received in Vietnamese or Spanish, while 24% of the grants were awarded to applicants who had submitted an application in Vietnamese or Spanish.

Businesses receiving grant funding included: Restaurants (26%), automotive repair (12%), dry cleaning (8%), construction (6%), food catering (6%), healthcare (5%), janitorial services (4%), retail (4%), professional services (4%), accounting/bookkeeping (3%), childcare (3%); hair salon (1%). Other industries accounted for 19% of the total.

Following the completion of the grants process, Opportunity Fund determined the following demographic information about applicants and grantees in compliance with banking regulations.

Business Owner Demographics	Applicants <i>n=1,167</i> (completed full application; includes those awarded a grant)	Grantees Funded <i>n=142</i>
Gender	43% female 57% male	37% female 63% male
Hispanic/Latinx	26%	31%
Black/African-American	3%	2%
Asian/Pacific Islander	57%	55%
Other ethnic minority	4%	4%
Total ethnic minority	90%	92%

Next Steps

In addition to the \$1.5 million donated to help San José small businesses, the Silicon Valley Strong efforts have raised approximately \$1 million in donations to help small businesses throughout Santa Clara County, including San José. Those funds are being administered by Opportunity Fund and will be used for a combination of restart loans, standard loans, and some additional payment relief. Funds are also used for loss mitigation, which includes the delivery of technical assistance, financial education, and other small business resources, including the necessary operating support to achieve them.

The City has three additional upcoming efforts to assist San José small businesses with funding.

First, on April 16, 2020, the City Council adopted a resolution related to allocations of Community Development Block Grant funding, including allocating \$2.5 million in CDBG funds for emergency job creation and retention loans to microenterprises to Opportunity Fund. The Council authorized the Director of Housing to negotiate terms and conditions and execute a Sub-recipient Agreement with Opportunity Fund. That agreement is in process and requires approval of program details from the federal Department of Housing and Urban Development. Once authorization is received, Opportunity Fund and the City will launch the micro-loan program.

Staff will notify Council once the program launches, and as with the Silicon Valley Strong small business grants program, will provide Council offices with multi-lingual information to share with constituents. In addition, based on data from the Silicon Valley Strong small business grants program, the outreach program will be updated to include outreach to women-owned businesses in the targeted neighborhoods.

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Second, \$4 million in federal Coronavirus Relief Funds were allocated for small business grants and loans with the adoption of the 2020-2021 Operating Budget and Mayor's June Budget Message. The Office of Economic Development is developing this program and will, in accordance with the Budget Message direction, apply an equity screen and target funding to small businesses most impacted by COVID-19 and recent protests.

Third, the Council voted to allocate up to \$2.5 million in Coronavirus Relief Funds for loans and grants to operators of small/family childcare facilities, using an equity screen and focusing on high-need neighborhoods.

It should be noted that these new programs have additional challenges due to the restrictions in how federal funds can be used. These restrictions have made it more difficult to deploy funds as quickly as staff would like, or than occurred with the philanthropic resources.

/s/

KIM WALESH

Deputy City Manager

For questions, please contact Jeff Ruster, Assistant Director of Economic Development, at (408) 535- 8183 or Michelle McGurk, Assistant to the City Manager, at (408) 535-8254.